

RECOMMENDATIONS FOR IMPROVING TAXPAYER COMPLIANCE AND DEPARTMENT ADMINISTRATION

TAXPAYERS' CONCERNS AND SUGGESTIONS TO THE DEPARTMENT

The Indiana Department of Revenue conducted its annual public hearing on June 1, 2004, as announced in the IT-40 Individual Income Tax Booklet. State Revenue Commissioner Kenneth L. Miller presided over the meeting with representation from all divisions within the Department. Similar to previous years, taxpayers were provided the option of attending the hearing in person or submitting written comments.

Graduated Income Tax

A taxpayer suggested that Indiana should adopt a graduated income tax. As used by the federal government, this procedure provides a lesser tax rate for lower income individuals and increases the rate in designated increments as income levels increase. Presently, the State of Indiana has a flat tax of 3.4 percent for all income levels that does allow certain deductions, credits and exemptions. A change would require approval by the Indiana General Assembly.

Pension Income

Some concern about the taxing of pension income was provided. A taxpayer suggested that Indiana should follow Ohio's lead in not taxing pension income. However, a further review of the Ohio State Income Tax Return shows that Ohio does not exempt all pension income but provides for a maximum \$200 tax credit.

Withholding

A taxpayer wrote the Department to point out that he works for a Tennessee company that does not withhold Indiana income tax. Lack of Indiana withholding requires the taxpayer to "write a check to pay Indiana income tax when this is a hardship." The taxpayer finds it "difficult to write a check for taxes at the end of the taxable year." If a Tennessee company does not have nexus with Indiana, there is no requirement that the company would have to withhold for Indiana income tax purposes. It would require action on the federal level to mandate such a change.

Military Deduction

The taxation of military income is a continuing theme from year to year regarding suggestions for changes in tax administration. This year, one letter was received that suggests "state tax relief for the service members who are residents of Indiana." The letter specifically referred to Tennessee, Washington, Texas and Florida that offer tax breaks. In response, those four states have never adopted individual income taxes, therefore no one from those states pays state income taxes. Indiana offers a \$2,000 maximum deduction if a resident's income includes active or reserve military pay. In addition, military income earned while in a combat zone may be exempt at the federal level, and therefore, also exempt for Indiana income tax purposes.

IMPROVEMENTS IN THE TRAINING OF DEPARTMENT EMPLOYEES

AUDIT DIVISION

Audit Division provided training to new and veteran auditors throughout the Fiscal Year 2004 reporting period. Classes for new auditors focused on providing tax skills, computer training and report writing. Seminars for veteran auditors were presented to enhance tax auditing skills for newly enacted laws.

PERSONNEL DIVISION

During Fiscal Year 2004, the Training Team presented training classes to a total of 1,457 participants.

Classes were offered in ABC's of Discrimination, Cultural Diversity, Interview and Selection, Leaves (FML, Disability, Sick, Personal, etc.), Managing in a Union Environment; New Employee Orientations 101, 102 and for Intermittents; Performance Appraisals and Progressive Discipline for supervisors, Sexual Harassment Prevention (for both employees and supervisors), Warrants on the Internet, Word 2000 and inquiries on the Returns Processing System (RPS) for accounts receivable, criminal investigation and fuel tax.

The Procedures Committee has added 22 new procedures to the RPS (Returns Processing System) Help System. The Procedures Committee was established three years ago to give the Department of Revenue employees the resources for procedures in RPS and to make them consistent throughout the agency.

A special Six Week Training Module was established for Supervisors -- 109 attended the following courses: Sexual Harassment, ABC's of Discrimination, the Union Settlements, Progressive Discipline, Performance Appraisals, the hiring process and Personnel Rules.

A committee was formed to establish Computer Based Training (CBT) for all employees to keep current on new laws dealing with all taxes. Modules tested were Individual Taxes, Sales Taxes and Withholding Taxes. The Committee will continue to work until all tax types are on line. CBT will eventually be available from all Department of Revenue employees' desktop.